



MAJOR ELECTRICITY USERS' GROUP

4 March 2014

Dr John Rampton
General Manager Market Design
Electricity Authority

By email to submissions@ea.govt.nz

Dear John

Working paper – Use of LCE to offset transmission charges

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority working paper¹ "Transmission pricing methodology: use of LCE to offset transmission charges" dated 21st January 2013. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
2. This working paper is helpful in isolating and putting into perspective issues with the October 2012 issues paper proposed treatment of LCE. MEUG at that date was unsure if any change was necessary for allocation of LCE.
3. This latest working paper has allowed MEUG to firm up our views as follow:
 - a) Allocation of LCE is amenable to a market approach and should be adopted in so far as this does not lead to inefficient outcomes.
 - b) The working paper has, following submissions from various parties, identified two risks with the October 2012 proposal to allocate LCE to offset charges for individual assets from which LCE derive that may lead to inefficient outcomes. Those risks are nodal prices being muted and generator gaming². Accordingly MEUG agrees that alternatives to the October 2012 issues paper proposed treatment of LCE need to be considered.
 - c) The three "base" options considered in the working paper are feasible to overcome the above two risks. We've termed these as "base" options because as the paper notes³ all three have variations whereby using a longer averaging base than a monthly allocation cycle will also mitigate gaming risk.

¹ <http://www.ea.govt.nz/dmsdocument/16321> found at <http://www.ea.govt.nz/our-work/consultations/priority-projects/tpm-lce-working-paper/>

² And potentially purchaser gaming once dispatchable demand is in place

³ Paragraph 1.11

- d) We believe options 2 and 3 are better than option 1 because they retain some market like allocation being LCE arising from connection assets being used to offset connection charges to those connected customers. This market like treatment is possible because there is little gaming risk for those connection asset derived LCE.
 - e) In choosing between options 2 and 3 we agree with the analysis option 2 is preferable because with option 3 some gaming risks will remain on an asset class basis.
4. Subject to the caveat in paragraph 5 below we agree with the preferred approach of⁴
“Classifying LCE by asset class and applying LCE originating from connection assets against charges for individual assets. Under this alternative, the remaining LCE would be credited against the MAR in bulk (option 2)”
5. The final judgement as to whether option 2 for allocating LCE should be adopted will depend on the overall proposal in the second consultation round planned for the end of this year and the quality of the cost-benefit-analysis relied on to support the proposal.

Yours sincerely



Ralph Matthes
Executive Director

⁴ Paragraph 1.7 (b)